Firms in China face policy risk

Written by Taipei Times Editorial
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Data released by the Chinese National Bureau of Statistics on Friday showed that China’s GDP growth slowed to 6.5 percent in the third quarter, the lowest since early 2009. China’s growth faces increasing pressure from the US-China trade war, Beijing’s financial deleveraging and property curbs, the US Federal Reserve’s interest rate hikes and a weakening yuan that is prompting capital outflows.

The People’s Bank of China has lowered its reserve requirement ratio four times to encourage lending and has urged banks to increase lending to cash-starved small companies, but Chinese media have reported that banks’ loan requirements for small firms and private companies remain stringent, and further reserve requirement reduction is expected.

Chinese equities have fared worse than other Asian markets this year, with yuan-denominated A-shares in Shanghai last week falling to a four-year low. Worries about the forced sale of pledged shares spiked last week after firms said that their major investors had failed to meet demands for additional collateral.

As more forced sales would tip the markets into a downward spiral, Chinese regulators have called on creditors to prevent them, while a number of state-run funds and local government-backed enterprises have injected funds into listed firms facing forced liquidation of pledged shares.

Government intervention in the stock market is a sign of commitment to maintaining market stability, restoring investor confidence and pumping more liquidity into the market, yet the latest tallies compiled by China International Capital Corp show that by last month, 26 companies listed in Shanghai and Shenzhen had sold controlling stakes to central, provincial or city governments, as they could only access capital through the state. This has triggered discussions about public versus private ownership of businesses and speculation that the Chinese Communist Party (CCP) might sideline the private sector and advance the state sector.

The speculation dates to January, when Zhou Xincheng (□□□), a professor at Renmin University of China’s School of Marxism Studies, advocated developing the public sector in CCP political theory journal Qiushi (□□), calling for the elimination of private property.

His words caused a massive splash on Chinese social media, but Beijing authorities at the time kept to the sidelines.

Eight months later, Wu Xiaoping (□□□) in an article on the Jinri Toutiao (□□□□) Web site said that the private sector had fulfilled its task and should gradually wither to make way for a fully fledged state-run economy.

This time, facing a wave of public criticism, ranking Chinese officials and state media said that the two sectors are interdependent and the private economy would only grow bigger.

Apparently, Beijing is trying to assure the public that it supports the private sector — which makes up more than 60 percent of China's GDP — and does not want any reactionary ideas to question its reformist agenda and policy of opening up the economy at a time when it is already facing headwinds.

However, it remains to be seen whether expanding the state's influence on the private sector and squeezing out private firms are mere debate topics or a policy agenda in the making. After all, China's idiosyncratic economic environment often defies conventional thought about capitalist markets.

Policy risk is one more potential headwind facing the Chinese economy, and foreign businesses, including Taiwanese firms, that are planning to invest or expand operations in China should take note.

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